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Washington, DC 20548

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Congressional Committees

Subject: Overseas Contingency Operations: *Funding and Cost Reporting for the Department of Defense*

This report formally transmits the enclosed briefing on work performed under the authority of the Comptroller General to conduct evaluations on his own initiative.

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Enclosure

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Overseas Contingency Operations: Funding and Cost Reporting for the Department of Defense

**Briefing for Congressional Committees
December 16, 2009**



Introduction

- Since the September 11, 2001, terrorist attacks, the Department of Defense (DOD) has been engaged in domestic and overseas military operations in support of Overseas Contingency Operations (OCO).
- These operations include Operation Iraqi Freedom, which focuses principally on Iraq, and Operation Enduring Freedom, which focuses principally on Afghanistan but also includes operations in the Horn of Africa, the Philippines, and elsewhere.
- Obtaining an accurate picture of OCO costs is of critical importance given the need to evaluate trade-offs and make more effective use of defense dollars in light of the nation's long-term fiscal challenges. In the past, we have reported on the need for DOD to become more disciplined in its approach to developing plans and budgets, including building more OCO costs into the base defense budget.



Objectives

Under the Comptroller General's authority, GAO evaluated

- 1) the impact of changes to OCO funding guidance on DOD's fiscal year 2010 OCO funding request,
 - 2) factors that could affect fiscal year 2010 OCO estimates for reducing troop levels in Iraq and increasing troop levels in Afghanistan, and
 - 3) the extent of internal controls in DOD's process for producing its monthly OCO cost report to help ensure reliability of reported data.
-



Summary of Findings

- The Office of Management and Budget (OMB) issued new criteria to be used in developing DOD's fiscal year 2010 OCO funding request. To implement these criteria, the Office of the Under Secretary of Defense (OUSD) (Comptroller) and the services shifted some costs to the base budget and cut some costs entirely. These actions, in conjunction with other factors such as the need for less procurement funding, contributed to significant decreases in the OCO funding request for fiscal year 2010 compared to fiscal year 2009. To build more discipline into the budget process, the administration should continue to look for opportunities to move other OCO costs into the base budget.
- A variety of factors could affect fiscal year 2010 OCO funding needs for operations in Iraq and Afghanistan. Our analysis of Joint Staff planning assumptions developed in February 2009 and used for the fiscal year 2010 OCO funding request shows that the assumptions were optimistic and inconsistent when compared with current rotational plans for Army units in Iraq and Afghanistan. In addition to decisions on troop levels, we also identified additional factors that could affect funding, such as changes in the security situation and decisions yet to be made on equipment disposition.
- We found indications that DOD and certain military services did not adequately document current control practices for reliably reporting OCO costs.



Scope and Methodology

To achieve our objectives, we

- reviewed and analyzed OMB's *Criteria for War/Overseas Contingency Operations Funding Requests* for fiscal year 2010 and the criteria for prior years as well as other budget guidance issued by DOD;
- conducted interviews with officials from OMB, OUSD (Comptroller), the military services, and the Defense Finance and Accounting Service;
- reviewed and analyzed the military services' fiscal year 2009 and fiscal year 2010 budget justification documents and related data;
- compared the Joint Staff's planning assumptions used to develop the fiscal year 2010 funding request with force rotational plans;
- compared policies and procedures against GAO's Standards for Internal Control in the Federal Government; and



Scope and Methodology

- determined whether selected policies and procedures to help ensure data reliability were in use by analyzing selected data in the October 2008 through July 2009 OCO cost reports.
- We conducted our review from April 2009 to November 2009 in accordance with all sections of GAO's *Quality Control Assurance Framework* that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for our findings and conclusions in this product.
- DOD provided technical comments on a draft of this product, which we incorporated.

Background



OCO Funding since 2001

- Since 2001, Congress has provided DOD with about \$893 billion, as of November 2009, primarily for OCO. DOD has reported obligations of about \$789 billion for OCO from September 2001 through the end of fiscal year 2009 (September 30, 2009).
- Prior GAO work has recommended that DOD shift certain contingency costs into the annual base budget to allow for prioritization and trade-offs among DOD's needs and to enhance visibility in defense spending.* The department concurred with this recommendation. In February 2009, OMB issued new criteria for the development of DOD's OCO funding requests that required DOD to move some OCO costs into the base budget.

* GAO, *Global War on Terrorism: DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting*, GAO-08-68 (Washington, D.C.: Nov. 6, 2007).

Background



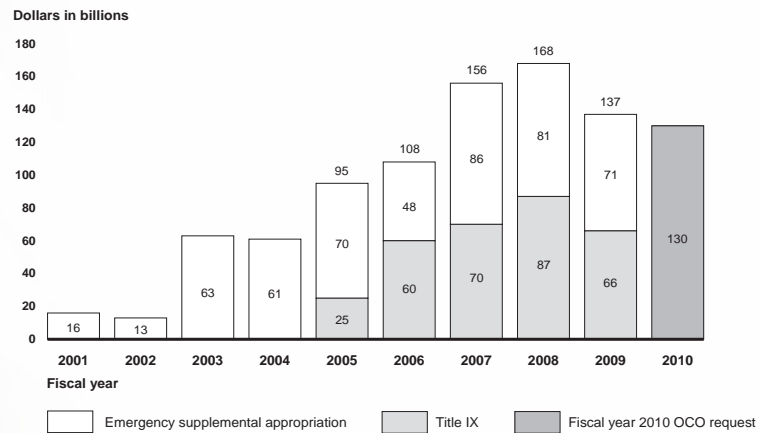
Contingency Operations Cost Reporting

- Prior GAO work has also found numerous problems in DOD's processes for recording and reporting obligations, raising significant concerns about the overall reliability of DOD's reported obligations. In addition, DOD's financial management has been on GAO's list of high-risk areas since 1995.
- In October 2008, DOD began using Contingency Operations Reporting and Analysis Service (CORAS) to report OCO funding, obligations, and disbursements in a new monthly OCO cost report.
- Objectives for the CORAS system included
 - improving the accuracy of the OCO reporting process by electronically capturing data from DOD accounting systems,
 - providing a Web-based tool to allow users to manually input data not readily available electronically from DOD accounting systems, and
 - producing OCO cost reports electronically.

Background



Funding Available to DOD for OCO (Fiscal Years 2001 through 2009) and DOD's Fiscal Year 2010 OCO Funding Request

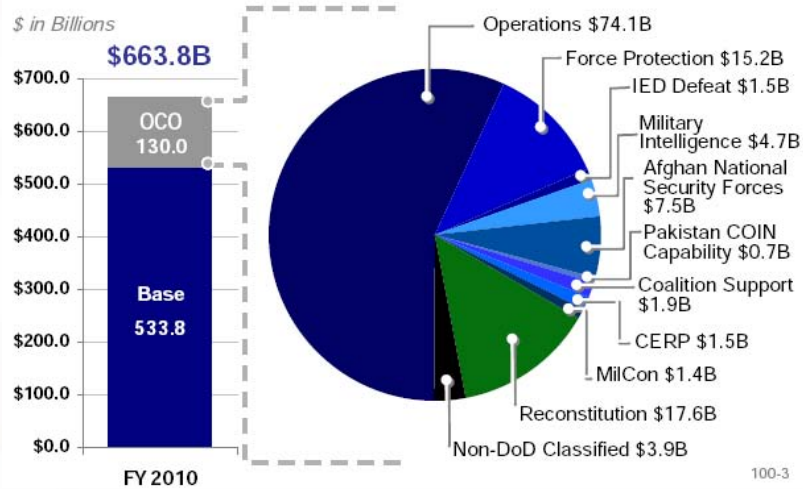


Source: DOD.
 Notes: From fiscal year 2001 through fiscal year 2009, Congress provided funds to DOD in emergency supplemental appropriations and Title IX of DOD's regular annual appropriation. These appropriations included funds that could be used for OCO. Except for fiscal year 2010, the figures reflect DOD's calculations of amounts available for OCO based on excluding funds that were appropriated for specific purposes, such as hurricane assistance. For fiscal year 2010, the figure reflects DOD's OCO funding request.

Background



DOD's Fiscal Year 2010 OCO and Base Budget Requests



Source: DOD.
Note: COIN refers to Counterinsurgency and CERP refers to the Commander's Emergency Response Program.

Objective 1



OMB Revised Criteria for Development of DOD's Fiscal Year 2010 OCO Funding Request

- In 2007, DOD revised its Financial Management Regulation, expanding the definition of acceptable maintenance and procurement costs and directing the military services to begin including "longer war on terror" costs in their OCO funding requests.
- GAO subsequently recommended that DOD issue guidance defining what constitutes the "longer war on terror," to identify what costs are related to that longer war and to build these costs into the base defense budget.* The department concurred with this recommendation. This provides greater opportunity and impetus for DOD to assess priorities and make trade-offs within the base budget.
- In February 2009, OMB issued new criteria specifying which costs formerly considered OCO should be included in the baseline budget. OUSD (Comptroller) plans to put the criteria in its Financial Management Regulation by early 2010.

* GAO 08-68.

Objective 1



OMB Revised Criteria for Development of DOD's Fiscal Year 2010 OCO Funding Request

Significant changes in the criteria used to build the fiscal year 2010 OCO funding request include the following:

| Areas | Current OCO Funding Guidance | Prior OCO Funding Guidance |
|---|--|--|
| Geographic Theater of Operations | Includes U.S. Central Command, the Horn of Africa, the Indian Ocean, and the Philippines, among others | Does not specify locations, which allowed for funding such items as home station needs to support contingency operations |
| Equipment | Specifies stricter definitions of replacement, repair, modification, and procurement of equipment; new criteria specify a 12-month time frame for obligating funds | Does not specify obligation time frames |
| Research, Development, Test and Evaluation (RDT&E) | Funding for research and development must be for projects required for combat operations in the theater that can be delivered in 12 months | No time frame restrictions |
| Personnel | Excludes pay and allowances for end strength above level requested in budget | Included |
| Family Support Initiatives | Excludes family support initiatives that would endure after U.S. forces redeploy to home stations | Included |
| Base Realignment and Closure | Excluded | Included |

Objective 1



Implementation of OMB Criteria Affected Fiscal Year 2010 OCO Funding Request

To implement the new OCO criteria, OUSD (Comptroller) and the services shifted some costs to the base budget and cut some costs entirely. These actions, in conjunction with other factors such as the need for less procurement funding in fiscal year 2010, contributed to significant OCO funding request decreases in several appropriation accounts in fiscal year 2010, particularly in procurement, RDT&E, and military construction.

**Contingency Operations Related Requests by Account Title
(Fiscal Years 2009-2010)**
Dollars in thousands

| Account title | FY 2009 | FY 2010 | Percentage change, FY09-10 |
|---------------------------|----------------------|----------------------|-------------------------------|
| Military Personnel | \$17,381,369 | \$13,586,341 | -22 |
| Operation and Maintenance | 91,657,226 | 90,560,280 | -1 |
| Procurement | 31,464,438 | 23,741,226 | -25 |
| RDT&E | 1,197,725 | 310,254 | -74 |
| Military Construction | 2,113,032 | 1,404,984 | -34 |
| Total | \$143,813,790 | \$129,603,085 | -10 |

Source: DOD.
Note: Numbers may not add to totals due to rounding.

Objective 1



Implementation of OMB Criteria Affected Fiscal Year 2010 OCO Funding Request

Applying the new criteria, OUSD (Comptroller) shifted about \$7.8 billion in funding from OCO to the fiscal year 2010 base budget request. Programs and initiatives that shifted to the base were overarching and long term.

DOD Funding Shifted to Base Budget due to New Criteria
(Dollars in billions)

| Program | Amount Shifted |
|---|----------------|
| Grow the Force | \$2.3 |
| Medical Support Costs | 2.8 |
| Recruiting and Retention | 0.6 |
| Joint Improvised Explosive Device Defeat Organization | 0.6 |
| Family Support Initiatives | 0.6 |
| Building Partnerships | 0.6 |
| Intelligence, Surveillance, and Reconnaissance Enhancements | 0.3 |
| Total | \$7.8 |

To accommodate these shifts, OMB raised DOD's annual base budget limit by \$8 billion. Therefore, DOD did not need to make trade-offs to stay within the budget.

Objective 1



Implementation of OMB Criteria Affected Fiscal Year 2010 OCO Funding Request

In addition to shifting costs, OUSD (Comptroller) and the services made a number of cuts to the fiscal year 2010 OCO funding request because of the new criteria:

- New restrictions on procurement resulted in a number of aircraft funding requests being denied by OSD (Comptroller), including:
 - Marine Corps request for 2 KC-130J tankers (\$200 million).
 - Navy request for 5 EA-18G Growlers (\$300 million).
- New restrictions on the geographic area of operations resulted in a number of military construction projects being denied by OSD (Comptroller), including:
 - Air Force request for construction and maintenance of runways in Guam (\$80 million).
 - Marine Corps request for docks and warehouse facilities at Blount Island Command in Florida (\$90 million).

OMB's new OCO criteria have resulted in DOD building a number of former OCO costs into the base defense budget, as suggested by our prior recommendation. To build more discipline into the budget process, the administration should continue to look for opportunities to move other OCO costs into the base budget.

Objective 1



OMB Waived New Criteria to Allow for End Strength Growth

- In July 2009, DOD decided to temporarily increase the Army's Active Component by up to 22,000 personnel, the costs for 15,000 of which would be funded in fiscal year 2010.
- In August 2009, the administration submitted budget amendments to the fiscal year 2010 OCO request, reallocating \$1.0 billion in order to provide funding for the additional personnel. The amendments reduced Army funding for vehicles by about \$700 million and reduced Navy and Air Force procurement funding by about \$310 million. This funding was then shifted to military personnel and various operation and maintenance accounts.
- These amendments request pay and allowances for end strength above the level requested in the President's budget. These types of costs are specifically excluded by the new OMB criteria. OMB officials explained that this increase is "temporary" and is the Army's only alternative to stop-loss for active duty personnel, and therefore OMB waived the criteria. OMB expects Army force levels to return to the current active end strength of 547,400 once demand for deploying units stabilizes.

Objective 2



Fiscal Year 2010 OCO Funding Request Based on Joint Staff Planning Assumptions

- The fiscal year 2010 OCO funding request assumed average force structure levels of about 100,000 in Iraq and 68,000 in Afghanistan.
- The request reflects plans for reducing troop levels in Iraq and increasing troop levels in Afghanistan based upon Joint Staff Planning Assumptions, developed in February 2009.
- According to GAO analysis and confirmed by discussions with the Joint Staff, the Planning Assumptions were optimistic (faster withdrawal of troops) and inconsistent with current rotational plans for Army units in Iraq and Afghanistan (more troops rotating in than planned).
- According to both Comptroller and Joint Staff officials, it may become necessary to seek additional funding in fiscal year 2010 through a supplemental or other means because of deviations from the Planning Assumptions.

Objective 2



Iraq: Additional Factors That Could Affect Fiscal Year 2010 Funding Needs for the Troop Drawdown

GAO has identified several additional factors that could affect funding needs for the Iraq drawdown in fiscal year 2010 and beyond, including:

- Changes in the security situation in the area.
- Decisions on the disposition of vehicles and other items, including what can and will be transferred to the Iraqi Government.
- DOD's ability to identify and move equipment from Iraq, including the storage and transfer capability in Kuwait and the capacity to receive and reset equipment in the continental United States.
- Further identification of drawdown-related contract services and a lack of contract oversight personnel.
- Environmental cleanup costs associated with large base closures.

Objective 2



Afghanistan: Additional Factors That Could Affect Fiscal Year 2010 Funding Needs for the Troop Plus-Up

GAO has identified several additional factors that could affect funding needs for the Afghanistan plus-up in fiscal year 2010 and beyond, including:

- Changes in the security situation in the area.
- Availability of U.S. forces, particularly for specialized capabilities such as engineering, civil affairs, transportation, and military police.
- DOD's ability to adjust its training capacity from Iraq to Afghanistan.
- DOD's continued assessment of equipment requirements and availability for Afghanistan's harsh operating environment.
- DOD's ability to transport personnel and equipment given Afghanistan's limited infrastructure and topography, as well as its strategic airlift capacity and regional staging base options.
- Requirements for additional contractors.

Objective 3



Preliminary Observations on Contingency Operations Cost Reporting

We found indications that DOD and certain military services did not adequately document current control practices for reliably reporting OCO costs, including

- providing for effective oversight of implementation of our previous recommendation concerning OCO cost allocations or
- documenting the results of monthly OCO cost analyses, comparisons, and reasonableness checks.

As appropriate, we plan to provide more detail on the extent and nature of our findings with respect to these observations, along with related recommended actions, in a separate report.



Related GAO Products

- *Global War on Terrorism: DOD Needs to More Accurately Capture and Report the Costs of Operation Iraqi Freedom and Operation Enduring Freedom.* GAO-09-302. Washington, D.C.: March 17, 2009.
- *Defense Budget: Independent Review Is Needed to Ensure DOD's Use of Cost Estimating Tool for Contingency Operations Follows Best Practices.* GAO-08-982. Washington, D.C.: September 15, 2008.
- *Supplemental Appropriations: Opportunities Exist to Increase Transparency and Provide Additional Controls.* GAO-08-314. Washington, D.C.: January 31, 2008.
- *Global War on Terrorism: DOD Needs to Take Action to Encourage Fiscal Discipline and Optimize the Use of Tools Intended to Improve GWOT Cost Reporting.* GAO-08-68. Washington, D.C.: November 6, 2007.



Related GAO Products

- *Global War on Terrorism: Fiscal Year 2006 Obligation Rates Are Within Funding Levels and Significant Multiyear Procurement Funds Will Likely Remain Available for Use in Fiscal Year 2007.* GAO-07-76. Washington, D.C.: November 13, 2006.
- *Global War on Terrorism: Observations on Funding, Costs, and Future Commitments.* GAO-06-885T. Washington, D.C.: July 18, 2006.
- *Global War on Terrorism: DOD Should Consider All Funds Requested for the War When Determining Needs and Covering Expenses.* GAO-05-767. Washington, D.C.: September 28, 2005.
- *Global War on Terrorism: DOD Needs to Improve the Reliability of Cost Data and Provide Additional Guidance to Control Costs.* GAO-05-882. Washington, D.C.: September 21, 2005.

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